

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 29, 2005



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 29, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Graves County Sheriff as of April 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,862,576 for the districts for 2004 taxes, retaining commissions of \$324,311 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,313,716 to the districts for 2004 Taxes. The audit of the Sheriff's Settlement - 2004 tax taxes reflects taxes of \$213,900 are due to the districts and refunds of \$153 are due to the Sheriff.

Report Comments:

- The Sheriff Should Remit \$213,928 To The Taxing Districts And Obtain Refunds Of \$342 From Taxing Districts To Settle 2003 And 2004 Taxes
- The Sheriff Should Have Distributed \$208,712 Of Franchise Tax Collections On A Timely Basis
- The Sheriff Should Distribute Total Franchise Tax Collections To The School District
- The Sheriff Should Distribute Interest Earned On Franchise Tax Collections Each Month
- The Sheriff Did Not Prepare A Settlement For Franchise Tax Collections And Distributions
- The Depository Institution Should Have Provided Sufficient Collateral Of \$67,569 To Protect Deposits As Required By The Written Agreement
- The Sheriff Should Open An Escrow Account And Transfer All Unclaimed Or Unexplained Tax Collections
- The Sheriff's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2004 Taxes as of April 29, 2005. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of April 29, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following comments:

- The Sheriff Should Remit \$213,928 To The Taxing Districts And Obtain Refunds Of \$342 From Taxing Districts To Settle 2003 And 2004 Taxes
- The Sheriff Should Have Distributed \$208,712 Of Franchise Tax Collections On A Timely Basis
- The Sheriff Should Distribute Total Franchise Tax Collections To The School District
- The Sheriff Should Distribute Interest Earned On Franchise Tax Collections Each Month
- The Sheriff Did Not Prepare A Settlement For Franchise Tax Collections And Distributions
- The Depository Institution Should Have Provided Sufficient Collateral Of \$67,569 To Protect Deposits As Required By The Written Agreement
- The Sheriff Should Open An Escrow Account And Transfer All Unclaimed Or Unexplained Tax Collections
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 11, 2006

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 864,163	\$ 973,962	\$ 2,607,798	\$ 1,271,970
Tangible Personal Property	115,922	117,812	321,326	423,158
Intangible Personal Property				157,841
Fire Protection	697			
Omitted Taxes	1,268	2,063	3,965	5,534
Franchise Corporation	153,203	181,542	439,262	
Prior Year Additional Billings	275	483	933	705
Volunteer Fire Dues		427,080		
Clay Reserves	233	246	892	343
Limestone, Sand, and Mineral Reserves	140	148	538	207
Bank Franchises	92,327			
Penalties	6,274	11,665	19,150	9,885
Adjusted to Sheriff's Receipt	<u>(1,835)</u>	<u>(1,916)</u>	<u>(10,543)</u>	<u>(2,552)</u>
Gross Chargeable to Sheriff	<u>\$ 1,232,667</u>	<u>\$ 1,713,085</u>	<u>\$ 3,383,321</u>	<u>\$ 1,867,091</u>
<u>Credits</u>				
Exonerations	\$ 3,636	\$ 9,214	\$ 12,044	\$ 5,749
Discounts	16,282	22,406	44,396	28,529
Delinquents:				
Real Estate	17,176	19,501	47,490	25,277
Tangible Personal Property	1,350	1,379	3,005	6,108
Intangible Personal Property				4,747
Prior-year Additional Bills	36	158	137	56
Volunteer Fire Dues		17,280		
Uncollected Franchise	<u>9,509</u>	<u>9,242</u>	<u>28,881</u>	
Total Credits	<u>\$ 47,989</u>	<u>\$ 79,180</u>	<u>\$ 135,953</u>	<u>\$ 70,466</u>
Taxes Collected	\$ 1,184,678	\$ 1,633,905	\$ 3,247,368	\$ 1,796,625
Less: Commissions *	<u>50,636</u>	<u>67,136</u>	<u>129,895</u>	<u>76,644</u>
Taxes Due	\$ 1,134,042	\$ 1,566,769	\$ 3,117,473	\$ 1,719,981
Taxes Paid	1,096,889	1,515,403	2,984,569	1,716,855
Refunds (Current and Prior Year)	<u>1,349</u>	<u>1,699</u>	<u>4,637</u>	<u>3,117</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 35,804</u>	<u>\$ 49,667</u>	<u>\$ 128,267</u>	<u>\$ 9</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 29, 2005
 (Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 4,161,047
4% on	\$ 3,651,728
1% on	\$ 39,801

** Special Taxing Districts:

Library District	\$ 15,808
Health District	13,286
JU Kevil	7,981
Watershed District #1	5,651
Watershed District #2	6,592
Volunteer Fire Departments	
Clear Springs	(77)
Fancy Farm	114
Farmington	(38)
Melber	122
Rescue Squad	79
Sedalia	(38)
Viola	117
Wingo	70
	<hr/>
Due Districts or (Refunds Due Sheriff)	<u>\$ 49,667</u>

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Collateral Insufficient To Secure Deposits of Public Funds

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, on November 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$67,569 of public funds uninsured and unsecured.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 29, 2005
 (Continued)

Note 2. Collateral Insufficient To Secure Deposits of Public Funds (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on November 30, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	4,947,353
Uncollateralized and uninsured	<u>67,569</u>
Total	<u>\$ 5,114,922</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2004 through April 29, 2005.

Note 4. Interest Income

The Graves County Sheriff earned \$1,839 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of the audit date, the Sheriff owed \$215 in interest to the school district and \$267 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$37,230 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$7,201 of advertising costs and advertising fees. The Sheriff collected \$15 per tax claim advertised and distributed the total amount collected to the county for advertising costs.

Note 7. Unclaimed Or Unexplained Tax Collections

According to KRS 393.110, the Sheriff should properly report annually to the Kentucky State Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. As of the audit date, the Sheriff had \$6,237 in unclaimed duplicate payments and unexplained receipts, of which \$5,469 was from 2003 taxes and \$768 was from 2004 taxes.

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 29, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit \$213,928 To The Taxing Districts And Obtain Refunds Of \$342 From Taxing Districts To Settle 2003 And 2004 Taxes

The proper distribution of tax money collected by the Sheriff requires the collection of receivables and distribution of payables to the appropriate taxing districts. The county's districts rely on the tax collections to provide services, and these services could suffer as a result of not receiving their tax collections.

<u>Districts</u>	<u>Tax Year 2003</u>	<u>Tax Year 2004</u>	<u>Due Districts Or (Refunds Due Sheriff)</u>
Board of Education	\$ 157	\$ 128,267	\$ 128,424
Clear Springs Fire District		(77)	(77)
Fancy Farm Fire District		114	114
Farmington Fire District		(38)	(38)
Graves County Fiscal Court	(380)	35,804	35,424
Health District	(67)	13,286	13,219
J. U. Kevil District	(41)	7,981	7,940
Library District	(290)	15,808	15,518
Melber Fire District		122	122
Rescue Squad Fire District	160	79	239
Sedalia Fire District	(38)	(38)	(76)
State of Kentucky	(38)	9	(29)
Symsonia Fire District	1		1
Viola Fire District		117	117
Water Valley Fire District	(114)		(114)
Watershed #1 District	299	5,651	5,950
Watershed #2 District	268	6,592	6,860
Wingo Fire District	(78)	70	(8)
Totals	<u>\$ (161)</u>	<u>\$ 213,747</u>	<u>\$ 213,586</u>

We recommend that the sheriff pay the districts the amounts owed and obtain refunds for amounts due to the Sheriff's office.

Sheriff's Response:

This has been done by completing checks on April 12, 2006.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Have Distributed \$208,712 Of Franchise Tax Collections On A Timely Basis

According to KRS 134.300(1), all taxes collected by the sheriff are required to be distributed by the 10th day of the month following the month of collection. As of April 11, 2006, franchise collections for February 2005 and March 2005 had not been distributed. Based on monthly tax reports, these undistributed taxes totaled \$208,712. These undistributed franchise taxes have been included in our audit of the Sheriff's Settlement - 2004 tax settlement. We recommend that the sheriff distribute franchise tax collections as required by KRS 134.300(1).

Sheriff's Response:

This has already been done. Bookkeeper has arranged for distribution as of April 12, 2006.

The Sheriff Should Distribute Total Franchise Tax Collections To The School District

According to OAG 82-587, the school district is to receive the gross collections for each month that taxes are collected. They, in turn, are required to refund the commission amount to the sheriff. Based on testing of franchise tax payments, auditors noted that the school distributions were net of commissions of \$11,554. We recommend that the sheriff distribute gross franchise tax collections to the school district in the future.

Sheriff's Response:

Already taken care of. Previous Bd bookkeeper requested to do it this way.

The Sheriff Should Distribute Interest Earned On Franchise Tax Collections Monthly

KRS 134.140(3)(b) states that "at the time of his monthly distribution of taxes to the district board of education, the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes..." The remaining interest should be paid to the Sheriff's fee account and may be used to pay lawful expenses of his office.

The investment earnings on franchise tax collections have not been distributed. The Sheriff owes the school \$224 and his fee account \$241 for interest earned on 2004 franchise tax collections. In the future, we recommend that the Sheriff comply with KRS 134.140(3)(b) by distributing interest earned proportionately to the school and his fee account in a timely manner.

Sheriff's Response:

Okay

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Did Not Prepare A Settlement For Franchise Tax Collections And Distributions

While reviewing the Fiscal Court Order Book, the 2004 franchise tax settlement had not been approved. The fiscal court approved the property tax settlement for 2004 taxes on September 12, 2005. A franchise tax settlement has not been prepared for the 2004 tax year. In the future, we recommend that a complete 2004 tax settlement be prepared that includes all tax collections and distributions, including franchise taxes. The fiscal court would only have to approve one settlement.

Sheriff's Response:

Will comply.

The Depository Institution Should Have Provided Sufficient Collateral Of \$67,569 To Protect Deposits As Required By The Written Agreement

On November 30, 2004, \$67,569 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the depository institution pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times

Sheriff's Response:

This is being taken care of.

The Sheriff Should Open An Escrow Account And Transfer All Unclaimed Or Unexplained Tax Collections

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Kentucky State Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. As of the audit date, the Sheriff had \$6,237 in unrefundable duplicate payments and unexplained receipts, of which \$5,469 was from 2003 taxes and \$768 was from 2004 taxes. Therefore, the Sheriff should deposit \$6,237 into an interest-bearing account and send a written report to the Kentucky State Treasury Department.

Sheriff's Response:

Will open escrow accounts.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. This could be documented by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff or his designee should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. This could be documented by initialing the tax settlement.
- The Sheriff or his designee should periodically compare tax payments to monthly reports. This could be documented by initialing the monthly report.
- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

Will comply.

PRIOR YEAR:

The following prior year comments have not been corrected and are discussed above:

- The Sheriff Should Require Depository To Pledge Or Provide Additional Collateral Of \$340,518 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Graves County Sheriff's Settlement - 2004 Taxes as of April 29, 2005, and have issued our report thereon dated April 11, 2006. The Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters On Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2004 Taxes as of April 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Remit \$213,928 To The Taxing Districts And Obtain Refunds Of \$342 From Taxing Districts To Settle 2003 And 2004 Taxes
- The Sheriff Should Have Distributed \$208,712 Of Franchise Tax Collections On A Timely Basis
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- The Sheriff Should Distribute Interest Earned On Franchise Tax Collections Each Month
- The Sheriff Did Not Prepare A Settlement For Franchise Tax Collections And Distributions
- The Depository Institution Should Have Provided Sufficient Collateral Of \$67,569 To Protect Deposits As Required By The Written Agreement
- The Sheriff Should Open An Escrow Account And Transfer All Unclaimed Or Unexplained Tax Collections

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 11, 2006

